STRATEGY RESEARCH PROJECT

THE GLOBAL ECONOMY – FERTILE SOIL FOR FUTURE CONFLICT

BY

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ABSTRACT

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The future prosperity and security of the United States is inextricably tied to the global economy. The growing number of multinational corporations and their complex network of foreign investments, production and marketing across international borders will continue to gain power and influence with far reaching consequences. International financial institutions such as the World Trade Organization, the International Monetary Fund and the World Bank are significant forces shaping the global economic playing field that individual nation states must use. Regional trade associations and agreements such as the North American Free Trade Agreement and the European Union all influence global economic conditions and limit the sovereign decision rights of involved governments.

The global economy is not inclusive and many underdeveloped, poor and marginalized nations are excluded from participation. The United States and other nations benefiting from the global economy face a future of asymmetric security threats and increased humanitarian crises in these 'left-behind' nations. There will be frustration, poverty, unrest and disillusionment in these marginalized nations. The global economy has the potential to spawn expanded global terrorism and to widen the gap between the haves and have-nots. The terrorist strikes of 11 September 2001 against the United States' symbol of economic strength and power, the World Trade Center, and against the symbol of our military might, the Pentagon, are profound proof that disenfranchised extremist groups will target the United States' hegemonic leadership of the global economy.

This paper assumes that the global economy will continue to exponentially expand among the industrialized and technologically advanced nations of the world. It examines the global economy's characteristics and main players, and explores its benefits, drawbacks, opportunities, challenges and potential future sources of conflict. Finally, the paper suggests that, as the hegemonic key player in the current global economy, the United States must use its influence to create future conditions such that all nations have the opportunity to participate and benefit.

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THE GLOBAL ECONOMY

The vast global system of trade and finance that has emerged since the end of the bi-polar Cold War days has enormous implications for nation states, corporations and individuals in every corner of the world. In this new global economy, trade barriers are falling, the markets for capital and investments are international, access to information from around the world is instantaneous and economies are increasingly interconnected.[1] Trends toward democratization and open market capitalism coupled with advances in technology and communication have fueled this phenomenon. The future prosperity and security of the United States is inextricably tied to the global economy. The growing number of multinational corporations (MNC) and their complex network of foreign investments, production and marketing across international borders will continue to gain power and influence with far reaching consequences. There are more than forty thousand MNCs that conduct over US$4 trillion per year of global trade.[2]

The global economy operates within a set of dynamic and complex processes and protocols that are both regulated by international financial institutions and governments and subjected to the forces of competitive market capitalism. The forces of market capitalism that drive the global economy's engine seek continued growth, profits and any competitive business advantage. Using a metaphor, the global economy is an insatiable beast. International financial institutions such as the World Trade Organization (WTO), the International Monetary Fund (IMF) and the World Bank are significant forces that attempt to shape the global economic playing field that individual nation states must use. These institutions create global economic policies, regulate and standardize trade practices, control financial flows, settle disputes and provide sources of capital for investment or recovery to participating nations. Regional trade agreements such as the North American Free Trade Agreement (NAFTA) and the European Union (EU) are attempts by groups of nations to create advantageous economic environments for their transactions.

For developed nations that are fully participating in the global economy, there are significant benefits. These include improved standards of life, increased wealth, education and employment opportunities. The Japanese author, Kenichi Ohmae, coined the phrase 'Global Triad' to describe the tri-polar, macro-regional structure of North America, Europe and Asia responsible for over eighty-seven percent of the world's manufacturing output.[3] Participation in this global economic system entails abiding by the standards imposed by implicit market forces

and explicit rules and regulations set down by international financial institutions. The global economy's playing field demands auditable financial dealings and standards, as well as stable and open governments that promote market capitalism and shun corruption. The global economy creates a real degree of transparency in a nation's governmental policies, banking and accounting systems in order to attract foreign investors and foster trust.[4] Prosperity, hope and stability await those nations able to participate in the global economy. Unfortunately, not all nations are able to take part due to financial, natural or population resource shortfalls, governmental instability, illiteracy, lack of national infrastructure and cultural or societal limitations.

At present, the global economy is not an all-inclusive system and many underdeveloped, poor and marginalized nations are unable to participate. Many individuals, organizations and nations believe that the growing global economy exploits labor forces, increases environmental pollution and ecological damage, destroys national uniqueness, promotes cultural homogenization, harms small and local businesses and forces developing counties further into national debt.[5] The United States and other nations benefiting from the global economy face a future of asymmetric security threats and increased humanitarian crises in these 'left-behind' nations. There will be frustration, poverty, unrest and disillusionment in the disenfranchised nations that will give way to massive population migrations into urban areas and across sovereign borders. Additionally, the global economy's leading participant, the United States, is, and will continue to be, blamed for the hardships that the global economy is perceived to create. The global economy has the potential to widen the gap between the haves and have-nots and to spurn expanded global terrorism.

Using the assumption that the global economy will continue to expand among the industrialized and technologically advanced nations of the world, it is essential that we understand its characteristics, main players, benefits and drawbacks and international security implications. As the hegemonic player in the current global economy, the United States must use its influence to create future conditions such that all nations have the opportunity to participate and benefit in the global economy.

THE MAIN PLAYERS

The present day global economy is a complex, changing set of relationships between governments, MNCs, international financial institutions, nongovernmental organizations (NGO) and both institutional and individual investors. Each of the participants brings their own goals, interests, strategies and biases to the system. Although all these entities attempt to maximize

their interests through deliberate agreements and contracts, unintended consequences and the unpredictable ties that bind them all together make for a dynamic environment. They operate in a shifting environment of golden opportunities, unexpected tragic losses, liberal or restrictive trade rulings and uncontrolled currency flows. Each player is affected by the actions and decisions of the others.

It is best to examine the global economy in the context of three different sets of players that are inextricably linked together at multiple levels. The first set is comprised of the MNCs, their parent governments and their host governments who are involved in the development, production, marketing and pricing of goods or services worldwide. The second set of players are involved in the financial flows of investment capital throughout the world to include both institutional and individual investors as well as the thousands of financial corporations and holding companies worldwide. The third set of players include the international financial institutions such as the WTO, IMF and World Bank and the regional trading blocks and unions such as NAFTA, the EU, the G-7/G-8 and MERCOSUR that each attempt to shape the environment in which both trade and currency flows take place.

MULTINATIONAL CORPORATIONS, PARENT AND HOST GOVERNMENTS

The MNC is the backbone of the international trading system.[6] Vestiges of multinational firms can be traced back to the days of the explorers and traders who risked life and limb to expand the opportunities of business entities such as the Dutch East India Company and the Massachusetts Bay Company entrepreneurs. These merchants and adventurers were forerunners of the modern day MNCs such as AOL-Time-Warner, Ford Motor Company and Halliburton.[7] Those earlier multinational firms commanded their own armies and navies, formulated their own foreign policies and controlled vast expanses of the known world. Dealing in mostly agricultural products and extracting resources from many regions of the world, they acted as autonomous and self-serving entities.[8] Despite some subtle similarities with yesteryear's trading firms, today's MNCs must contend with the interests of their parent and host governments, the expectations of shareholders and employees, the watchful eyes of the world's media and the pressure of environmentalists and human rights activists to name a few.

The relationships between the MNC and its parent and host governments are exceptionally complex and unique. Despite the risks inherent with investing corporate capital into ventures in a foreign host country, termed foreign direct investments (FDI), these MNCs forge ahead at increasing rates. They seek many market advantages to include lower raw material costs, lower operating and labor costs, tax advantages and a closer proximity to

customers. They bear the burden of losing their investments to political instability, war, government sanctions, natural disasters and a host of other unpredictable events.[9] Some perceive MNCs as major sources of capital and technology for developing countries and as the most productive and efficient use of the world's resources. Conversely, many see them as giant entities that exploit underdeveloped nations and damage the environment. All MNCs must contend with the rules and regulations of the government from which they originate, termed their parent government, as well as the objectives and interests of the host government where their overseas ventures occur.

Parent and host governments have their own agendas with respect to national sovereignty, national security, economic growth and the improvement of their society's quality of life. Their actions with respect to FDI and international trade will quite often conflict leaving the MNC in the middle of disputes. MNCs provide parent governments with economic and diplomatic leverage overseas, a reason for peace and cooperation between nations, access to natural resources not found at home and an avenue to export cultural values and standards.[10] Conversely, parent governments may be concerned with the improper release of sensitive technologies overseas, the breaking of established or new trade sanctions and a variety of tariff and taxation issues. A bargaining relationship exists between the MNC and the host government in which each side seeks to extract maximum concessions from each other. The firm is in the stronger position prior to an investment, however, once the investment is actually in place, the bargaining power shifts to the host government.[11] Host governments enjoy the benefits of newly infused capital into their economy, wealth, jobs, technology, training and access to the global economy. On the other hand, host governments may be concerned with the exploitation of its natural resources, labor pool and environment. Additionally, the host nation assumes the additional debt required to build and maintain an infrastructure of transportation nodes, utilities, stable governmental agencies and a health and education system that will support a continued labor pool. These costs often cripple a developing host country.

INSTITUTIONAL AND INDIVIDUAL INVESTORS

One of the astounding aspects of the global economy is the emergence of a virtually unregulated global financial system that allows continuous access to the world's equity and currency markets through the technologies of the computer age and instantaneous communications. These financial transactions are not related to the FDI referred to in the preceding section where MNCs invest in buildings, equipment and physical facilities overseas. These financial deals amount to instantaneous computerized movements of capital in and out of

investment vehicles and currency exchanges in cyberspace. The financial flows of international organizations such as the World Bank and IMF are small relative to the hefty direct and portfolio investments that private investors pour into emerging markets overseas.[12] The vast majority of the investments that sweep across global borders daily escape national regulation. More than twenty thousand corporations are chartered in the Cayman Islands alone and an estimated 1.5 million such corporations now operate offshore in secrecy, handling private banking services worth 13.6 trillion dollars.[13] The global financial system is increasingly characterized by turbulence, instability, mounting debt in many developing nations and worldwide crisis.

A controversial debate continues in government, academia and business over the degree with which the international flow of financial investments should be regulated. Many American economists feel that these flows should remain largely unregulated so that the market forces can determine where investments end up. The theory is that market forces will naturally dictate the places and activities where capital resources should be free to move toward in order to be used in the most efficient manner possible.[14] Conversely, history has shown that the current unregulated system is fragile and prone to panic and subsequent massive withdrawals of financial capital resources. A series of poor investment decisions, aggressive and speculative capital flows into emerging markets and government instability triggered the East Asian financial crisis of 1997 and 1998 when Thailand's currency (the Baht) collapsed in value. The resultant shock to the global economy shook the whole system. Initiating in Thailand, the crisis spread rapidly to Germany, Russia, the United States, Brazil and every other nation on earth. Proponents of the increased control of worldwide financial flows point to these instances as proof that strengthening the regulatory and oversight roles of the IMF are essential.[15]

INTERNATIONAL FINANCIAL INSTITUTIONS AND REGIONAL TRADE BLOCS

Several global organizations and financial institutions exist that attempt to regulate, arbitrate and set the conditions with which the global economy's trade and financial transactions take place. In 1944, the IMF and the World Bank were created at an international conference held in Bretton Woods, New Hampshire. Although the IMF and the World Bank both provide loans, credits and grants to their member nations, they each have their own mission and focus. The IMF is chartered to promote the expansion of balanced international trade and to provide major loan packages and funding to member nations in financial trouble or those unable to obtain financing from other sources.[16] These funds are provided with strict conditions that force the borrowing nation to reform government policies, agencies and practices in order to promote economic recovery and increase their credit worthiness. The United States distributes the

largest amount of its developmental assistance to the world's poorest nations through the World Bank. In fiscal year 2001, the World Bank provided over 17 billion dollars in loans to more than 100 developing countries.[17] Critics of the IMF and World Bank loan practices believe that large rescue packages encourage irresponsible behavior on the part of the governments and bail out reckless private investors. Many poor nations are forced to devote more of their limited financial resources to the repayment of IMF and World Bank debts than they budget for health and education programs for their citizens.[18] In 1996, the IMF and the World Bank launched a program named the Heavily Indebted Poor Countries Initiative (HIPC Initiative) designed to provide exceptional assistance to eligible countries following sound economic policies to help them reduce their external debt burden to sustainable levels. In 2001, The HIPC Initiative assisted over 34 countries by freeing them from over 54 billion dollars in debt.[19]

Another regulatory body that shapes the global economy is the International Standards Organization (ISO) that assists trade by standardizing the dimensions of manufactured goods throughout the world. For example, it set the dimensions of credit and debit cards so that automatic teller machines could be used worldwide. Also, the International Labor Organization (ILO) which was established after World War II, drafts conventions on labor standards of health, safety and child employment. The World Intellectual Property Organization (WIPO), founded in 1970, attempts to protect property rights over inventions, designs, trademarks and literary works.[20] The memberships of all these organizations are made up of many governments each with their own interests and agendas. Each organization's span of power to enforce policies and regulations ultimately rests with the commitment of its members.

The central institution in the global trading system is the WTO, formed in 1994 and based in Geneva. The WTO's predecessor, known as the General Agreements on Tariffs and Trade (GATT), began after World War II as irregular negotiations by government officials from around the world. The GATT negotiating process became too slow and cumbersome as the global economy expanded, giving way to the WTO.[21] The WTO functions to make global trade policies, known as agreements, and acts as an informal international court to settle the disputes of its 140 members. The most recent set of WTO agreements, known as the Uruguay Round, were the result of negotiations conducted between 1986 and1994. Issues negotiated included the rules governing the trade of goods, services and intellectual property as well as dispute settlements.[22] The WTO has the authority to penalize and impose a monetary fine against any member nation that defies the decisions of its dispute settlement panels.[23]

Nations enter into regional trade agreements, free trade agreements, bi-lateral and other types of arrangements in order to capture some advantages in bargaining, pricing, taxes and

tariffs, resource availability, customer base and distribution. There is a definite trend toward regional agreements as evidenced by NAFTA, the EU, the Asia-Pacific Economic Cooperation Forum (APEC) and MERCOSUR.[24] Much debate exists as to whether the regional agreements support or conflict with the growth of the global economy. Issues include whether the global economy will fragment into regional and rival economic blocs and whether nations form regional blocs to avoid individual exposure to the total global economy, or if the regional arrangements are simply stepping-stones toward full integration in the global economy.

Finally, the most unique and unorthodox institution in this arena is the G-7/G-8 that brings together the governments of the United States, Japan, Germany, France, Italy, the United Kingdom and Canada (the original seven powers) and most recently, Russia. It does not have a charter, a headquarters or a secretariat and its proceedings are secretive apart from agreed communiqués and other documents from its annual meeting. Unencumbered by bureaucracy and able to interact informally, the annual summit meetings are attended by each nation's head of state.[25] The G-7/G-8 provides a forum for the leaders of the world's most developed economies to meet in an informal setting to form personal relationships, discuss issues and develop strategies and alternatives to economic problems without public scrutiny or fanfare.

A SOURCE OF CURRENT AND FUTURE CONFLICT

There are many aspects of the global economy that produce direct and observable negative effects as well as insidious and unpredictable second and third order consequences. Economic globalization demands efficiency. It rewards those who are prepared for it and punishes those who are not.[26] The opportunity to participate in the global economy is not open to all nations. Nations with corrupt or absent governments, limited infrastructure and natural resources, poor, unhealthy or uneducated populations are not able to attract FDI and the capital needed to participate. There exists a growing global economic gap. The main participants in the global economy include the industrialized nations of Europe, North America and parts of Asia. The Middle East, parts of the former Soviet Union and the nations of Sub-Sahara Africa are the global economy's main losers.[27] These and other parts of the world "left behind" will continue to be breeding grounds for frustration, contempt, jealousy and grass roots fundamentalism leading to terrorist activities, mass migrations toward over-burdened urban areas and asymmetric strikes against United States interests. As the world's most omnipresent economic power, the United States is directly associated with the global economy and will be the target of the frustration and hate.[28] The current situations in Afghanistan and Somalia are poignant illustrations of the consequences of isolated, poor and oppressed nations unable to

effectively participate in the global economy. The seeds of terrorism have flourished in these environments devoid of systems of government and population bases capable of sustaining socio-economic stability and growth, general health standards, public education and auditable financial and business systems.

There are many current and contentious issues associated with the global economy. There is an appreciation of the potential downsides of the global economy at every level of our society from the individual citizen to our elected policy-makers. Many of these issues are well publicized during open political debates in Congress on subjects such as trade liberalism, free trade agreements, human rights and environmental legislation. The global economy can be a perceived threat even to the individual American worker who fears job loss and wage reductions as a result of the United States' participation in NAFTA. There is organized opposition to the supporters of the growth of international trade and finance. The recent WTO summit in Seattle was disrupted by thousands of unruly protesters who marched and rioted against the alleged evils of the global economy.

MNCs are blamed for the uneven distribution of global wealth as well as the exploitation and abuse of the labor forces in their host governments. Publicized incidences of underage workers, unsafe and grueling work conditions and human rights violations endured by host nation workers abound.[29] Parent governments must contend with labor unions and lobby groups who are convinced that the MNCs have taken jobs overseas and flooded their home markets with less expensive goods that destroy domestic industries. MNCs are frequently accused of damaging the host nation's eco-systems and squandering their natural resources. One of the most insidious effects of the global economy and omnipresence of MNCs is that there is a whittling away of national identities. More specifically, the export of American goods, services, culture, entertainment and technology is forcing a global homogenization. Some societies are overwhelmed and threatened by Hollywood, Coke, blue jeans and Marlboro cigarettes. This produces tension, resentment and unrest in many nation states that seek to preserve their cultures and fundamental social mores.[30] The United States is perceived around the world as a rich, wasteful superpower whose per-capita consumption level proves that we are pursuing our own economic interests under the guise of a global economy at the expense of the poorer nations.[31] This backlash against the global economy can quickly turn to anti-American violence.

Many view the efforts of the IMF and World Bank to reform failed and failing governments with conditional loan packages as a major source of discontent and suffering worldwide. There are serious unintended consequences of the excessive debt assumed by nations utilizing loans

offered by the IMF and the World Bank. In their attempts to reform and meet the preconditions required from accepting IMF and World Bank loans, these nations actually take on much more debt than is fiscally feasible. Many debtor nations use their resources to pay back loans rather than for the development of sound governmental agencies, improved infrastructure, better health and educational systems, reduced corruption and transparent monetary systems. The HIPC Initiative was aimed at these exceptionally poor countries unable to exact significant reforms under the weight of their added debt.[32] This vicious downward spiral almost guarantees that poorer nations will remain unable to participate in the global economy.

In the interest of efficient decision making and in deference to member governments' desires to keep their national affairs confidential, every important international institution associated with the global economy (including the WTO, the IMF and the World Bank) operates largely in secrecy. This lack of openness and transparency coupled with the fact that the members representing the nation states are not elected officials creates what author Robert Gilpin refers to as a 'democratic deficit'.[33] This leads to a mistrust of the proceedings, and an increasing perception that one's daily life and society's well being is subject to decisions made by faceless international bureaucrats.

UNITED STATES NATIONAL SECURITY STRATEGY IMPLICATIONS

The economic well being of the United States and our national security are intimately tied to the health of the global economy. The formulation of economic policies, the creation of the laws and regulations that govern MNC and FDI activities and the crafting of our international economic relationships are all essential to our future national security. We live in an exciting time when the rapid advances of technology have had profound implications for the world's global economic system. The United States' trade policies, our initiatives pursued through international financial institutions such as the IMF and WTO and our leadership role in global economic issues are key to our national security. The rising tide of the global economy will create many winners but it will not lift all boats. A recent examination of global trends conducted by the Central Intelligence Agency reported that regions, countries and groups left out of the global economy's benefits will experience deepening economic stagnation, political instability, societal unrest and cultural alienation. Further, the study stated that this would foster political, ethnic, ideological and religious extremism and violence.[34] The terrorist strikes of 11 September 2001 against the United States' symbol of economic strength and power, the World Trade Center, and against the symbol of our military might, the Pentagon, are profound proof

that disenfranchised extremist groups will target the United States' hegemonic leadership of the global economy and influential presence throughout the world.

Plenty of evidence abounds of the recognition that the economic element of our national power plays an important role in our nation's future security. The most recent National Security Strategy states that, more than ever, prosperity and security in America depends on prosperity and security around the globe.[35] The formation of the National Economic Council, in 1993 by President Clinton, demonstrated a formal and more structured approach to the creation and coordination of domestic and international economic policies within the executive branch. The NEC's principal functions are to coordinate the economic policy-making process, provide economic advice to the President and monitor the implementation of the President's economic policy agenda.[36] The value of this more formal body of advisors survived the change in administrations when President George W. Bush retained the NEC within his cabinet organization.

During the Cold War, many of the domestic and foreign economic policies of the United States were formulated to specifically strengthen Western and democratically inclined nations and thwart the expansion of Soviet influence. Often, the United States selected and promoted economically advantageous arrangements with nations that mirrored and reinforced security alliances. Our nation was anxious to demonstrate to the world that our brand of democratic and free-market capitalism was an engine that powered wealth, growth and a higher standard of living.[37] Even with the end of the Cold War and the enormous growth and expansion of the global economy independent of a bi-polar struggle, the economic policies of the United States are still formulated and implemented within the context of political and national strategic considerations. With regard to the United States' strategy for national security, our economic policy formulation is still regarded as an important aspect of national power and one of the primary tools available to assist in the pursuit of our national interests.

With regard to the growing global system of trade and finance, the diminution of each nation state's sovereignty is an important issue to explore. Each nation is faced with increasingly powerful, vocal and demanding lobby groups and MNC's coupled with participation and membership in various international financial institutions and bilateral and complex multilateral trade relationships. These arrangements and pressures from outside sovereign governmental systems will continue to reduce each nation's independent decision options and influence their dealing in the global economy. Many global trade and finance disputes are now solved and adjudicated within international organizations such as the IMF and WTO.[38] Although these bodies may produce the most efficient and fair judgments for the global economy, those

judgments may not be in the best interests of an individual member nation. Other evidence exists of the incremental diminution of national sovereignty caused by the growing global economy. The electronic commerce conducted via the Internet and most international financial investments are now completed virtually beyond regulation, control or legislation by any one nation. Also, individual nations are finding it more difficult to exercise their economic element of national power without the full cooperation of many other countries. Unilateral economic sanctions against another country are almost useless due to the infinite ways these sanctions can be bypassed or disregarded by other nations interested in filling the trading vacuum. As an example, the current United States unilateral sanctions against Iran have done little to stop or dissuade other countries from aggressively pursuing opportunities to invest and develop their rich oil and gas resources.[39] The expanding interconnectivity of all nations at all levels, and subsequent clash of interests, consequently limits the array of independent sovereign decision alternatives to all national leaders.

THE UNITED STATES ROLE IN FORGING A GLOBAL ECONOMIC FUTURE

> Today, the most important thing, in my view, is to study the reasons why humankind does nothing to avert the threats about which it knows so much, and why it allows itself to be carried onward by some kind of perpetual motion. It is necessary to change and improve our understanding of the true purpose of what we are and what we do in the world. Only such an understanding will allow us to develop new models of behavior that enable us to invest in global regulations, treaties and institutions imbued with a new spirit and meaning.
>
> President Vaclav Havel, Czech Republic[40]

As its most influential player, the United States has an opportunity and an obligation to direct the future growth of the global economy. We stand at the hub of a worldwide trading and financial system that needs a vision for a future that is truly global and not just for the developed nations. The United States must use all its available power and influence within organizations such as the IMF, WTO, World Bank and G-7/G-8 to shape the priorities and policies necessary to ensure a more inclusive global economy. A case for proactive and determined United States leadership in the global economy is stronger today than at any other time in our history. The market forces of capitalism and the profits sought by MNCs and international investors power the engine of the global economy. It is an efficient and essentially uncaring system that discounts the predicaments of those nations unable or unprepared to participate. Monetary and human resources will have to be redirected toward the development of those 'left-behind' nations so that they will become, in the long-term, new consumers and producers. This will not happen naturally. It will take a worldwide awareness that the sacrifice of national treasure and

corporate profits in the short-term will have long-term benefits. The United States is uniquely positioned to lead these changes, ensure an opportunity for all nations to participate in the global economy and prevent the festering of discontented populations and security threats that will grow in the parts of the world excluded from economic prosperity.

There are numerous avenues of action and influence available to the United States that must be considered immediately. First, the United States should continue to set the example of prosperity in an open democratic system by maintaining a strong domestic economy. The American public, academic and private business sectors are foundations for worldwide technological innovations in every sector and our lead in these areas represents one of our greatest foreign policy assets. Also, the United States must develop an information campaign that is directed at our own domestic population and business community. This educational program should help shape public and private support and promote an understanding that the United States must take the lead in more positive and aggressive steps toward assisting less developed nations. The United States must also utilize its influence with friends and allies; bilateral and regional trade partners and fellow members of the various international financial institutions to forge a global approach to growing future trading partners from the currently impoverished nations. Patience, expert assistance, long-term commitment and an acknowledgement that many failures will line the road to success are key. The United States Agency for International Development (USAID) is one organization that has provided foreign assistance to many poor nations and could spearhead future efforts to improve the lives of the citizens of the developing world. Spending less than one-half of one percent of the federal budget, USAID provided 7.5 billion dollars during fiscal year 2001 to extend assistance to countries recovering from disasters, fighting poverty and corruption or engaging in democratic reforms.[41]

Within our own national economy, there exists ample evidence that our government acts to intervene with the forces of market capitalism and free trade in the interests of the public good. Heavy regulations and price controls are instituted in domestic industries that produce essential products or services and have the potential monopoly power to take advantage of the consumer. For example, in many parts of the United States, utility companies are closely watched and regulated with regards to their profit taking in order to ensure that quality service and energy is provided to consumers at affordable prices. Without these governmental controls, these utility companies could hold the consumer 'hostage'. This is a solid example of our government at work ensuring a greater good is realized at the expense of an individual's profit. The analogy applies on the world scene where government imposed aide and assistance to

develop poorer nations into potential long-term producers and consumers is a greater good and will enhance our future national security prospects.[42]

The United States can take a more active and influential role in establishing an international 'way-ahead' for the development and expansion of the global economy. The United States can take the lead in building a coalition of economically powerful nations that will make concerted efforts to shape the globe's future economic environment. Policies should be developed and enforced through the WTO, IMF and World Bank that reward those MNCs and nations who contribute their money, time and talent to improve the health, education, infrastructure and industry of the poorer nations throughout the world. The worldwide acceptance of this difficult concept, espousing that free-market driven business entities must forego profits today so that more opportunities exist in the future, will require more than just education. Considering that infectious diseases such as AIDS, malaria and tuberculosis still plague much of the poor nations, it is criminal that only 13 of the 1233 new medicines patented between 1975 and 1997, were for diseases that afflict 90 percent of the world's population.[43] Incentives must be put into place by both governments and the international financial institutions to both entice and coerce the global economy's participants to accept less profit in the short-term in order to enjoy long-term benefits.

Domestically, the American people, the business community, the Congress and the Executive branch will have to acknowledge the mantle of leadership that resides in our nation's role in the global economy and its importance for future generations. In addition to our potential influence through the IMF, WTO, World Bank and G-7/G-8, there are several United States agencies currently operating that could leverage our efforts abroad. The exchange of goods and services, capital and labor, and technology and ideas through the following agencies can provide a model for future developmental assistance. The Overseas Private Investment Corporation (OPIC) facilitates the investment of United States private capital in the economic and social development of over 140 poorer nations by underwriting and insuring these investments. OPIC's risk insurance, subsidized by the federal government, has helped American businesses of all sizes to invest in emerging markets abroad and has insured over 138 billion dollars worth of investments in its twenty-nine year history.[44] Also, the Export-Import Bank of the United States (Ex-Im Bank) guarantees loans and provides political and commercial risk insurance to United States firms who invest in developing countries. This organization has fostered trade between the United States and less-developed countries in many cases where businesses would not risk their capital investments due to excessive risk and instability.[45] Further, the Foreign Agricultural Service (FAS) of the United States Department of Agriculture

(USDA) and the United States Trade and Development Agency (USTDA) are two additional entities that could act as a conduit for developmental assistance to struggling nations. Globally, the United States must take the lead in changing the rules, regulations and policies of current trade and investments so that resources can be redirected toward the development of poorer and disenfranchised nations.

The inclusion of all nations in the global economy is vital to our United States national security and to the peace, stability and improvement of mankind's human condition. According to our latest National Security Strategy, in consonance with our American values, when a nation that embraces globalization gets left behind, the United States and other proponents of globalization should reach out a hand. It must be done in a manner that promotes sustainable development, enhances regional stability and honors our values that encourage us to share our wealth with others.[46] One key issue to focus on by United States strategists and policy makers in their efforts to assist struggling nations with sustainable development is debt relief. Mounting national debt in a developing country prohibits their ability to use their resources for the basic needs of their population. Excessive national debt detracts from the development of an education system, roads, rail and bridges, a sound heath care system, dependable power and clean water, governmental agencies and a banking and financial system free of corruption. The natural resources of a nation are easily sacrificed and squandered and the preservation of environmental standards quickly falls victim to the demands of a government struggling under a debt load.

The events of 11 September 2001 are clear testimony to the fact that the entire world is truly interconnected, smaller and more exposed to the plights, problems and asymmetric threats from remote corners of the globe. Unrest and poverty, alienation and hopelessness are human conditions and ways of life found in many economically dispossessed and discarded nations of our world. As the global economy grows and its benefits enrich the health, education and standard of living for those who can participate, a vast number of people are on the outside looking in. The resulting frustration and resentment provides a breeding ground for the recruitment of tomorrow's soldiers of terrorism who will target the world's most obvious symbol of economic power, the United States. As the years pass, and the economic gap widens between those who are participating in the global economy and those who can not, the threat of unrest, civil strife, massive dislocated populations, asymmetric violence and terrorism grows. The government, business community and people of the United States must recognize this potential threat and provide the global leadership and vision to set the conditions required so that all nations have the opportunity to participate in the global economy's benefits. As a future

economic, strategic and moral imperative, we must acknowledge and guarantee that all nations have access to the global economy.

Word Count: 6,188

ENDNOTES

[1] Stuart E. Eizenstat. From a speech presented at the James A. Baker III Institute for Public Policy. Houston Texas, November 2000; available from <http:/www.ustreas.gov/press/releases/ps1036.html>; Internet; accessed 21 September 2001.

[2] Hazel Henderson, Beyond Globalization; Shaping a Sustainable Global Economy (West Hartford, Connecticut: Kumarian Press Inc., 1999), 3.

[3] Peter Dicken, Global Shift; Transforming the World Economy (New York, N.Y.: The Guilford Press, 1998), 60.

[4] Thomas L. Friedman, The Lexus and the Olive Tree (New York: Farrar, Straus and Giroux, 1999), 86. Based on a well-developed theme from Thomas Friedman's book, "the Golden Straightjacket" describes the fundamental changes to a nation that must occur for the nation to conform to the global economic system. As a nation opens up its economy to foreign direct investments or accepts developmental loans and grant packages from the International Monetary Fund and World Bank, that nation must also adhere to the rule of law and remain open, transparent and auditable from outside agencies. In order to enjoy the many benefits of the global economy, attract investors and subject its currency to the rigors of the market, a nation must "put on the golden straightjacket" and remain accountable in many ways.

[5] Robert Gilpin, Global Political Economy; Understanding the International Economic Order (Princeton, New Jersey: Princeton University Press, 2001), 202.

[6] Robert Gilpin, The Challenge of Global Capitalism; The World Economy in the 21st Century (Princeton, New Jersey: Princeton University Press, 2000), 171. Gilpin defines the multinational corporation as a firm of a particular nationality with partially or wholly owned subsidiaries within at least one other national economy. He goes further to explain that such firms expand overseas through foreign direct investments in services, manufacturing, facilities or commodities.

[7] Vice President Richard (Dick) Cheney was the Chief Executive Officer of Halliburton between his government service as the Secretary of Defense and his current role as Vice President. This multinational corporation employs over 70,000 people and is involved in a myriad of business ventures including its role as the parent company for Brown and Root Inc. and worldwide oil and gas production and exploration. This business entity knows the risks of foreign investments and the complexities of dealing with the varied interests of both its home and host governments. It is also significant to note that its top management is familiar with the environment of private industry as well as the motivations and nuances of government policy making.

[8] Bruce Kogut, Foreign Policy "International Business, New Bottom Line" Spring 1998; available from <http:/www.findarticles.com/cf_dls/m1181/n110/20492572/print.jhtml>; Internet; accessed 21 September 2001, page 2.

[9] Overseas Private Investment Corporation Web Site Home Page, March 2002. Available from <http://www.opic.gov/whatisopic/whatis3.html>. Internet. Accessed 2 March 2002. OPIC mobilizes and facilitates the participation of private U.S. capital investment overseas in more

than 140 developing nations by providing investment insurance against risks such as political instability and civil wars.

[10] Gilpin, Global Political Economy; Understanding the Global Political Order, 171.

[11] Ibid, 173.

[12] Kogut, 1.

[13] Henderson, 5.

[14] Dicken, 61.

[15] International Monetary Fund Web Site Home Page, August 2001. Available from <http://www.imf.org/external/np/exr/facts/glance.html>. Internet. Accessed 2 March 2002.

[16] Ibid.

[17] The World Bank Web Site Home Page, March 2002. Available from <http://www.worldbank.org.html>. Internet. Accessed 2 March 2002.

[18] International Monetary Fund Web Site Home Page.

[19] Ibid.

[20] Peter Dorman, "The ABCs of the Global Economy" March-April 2000; available from <http://www.dollarsandsense.org/2000/0300collect.html>; Internet; accessed 21 September 2001. 7.

[21] Ibid.

[22] World Trade Organization Web Site Home Page, March 2002. Available from <http://www.wto.org.html>. Internet. Accessed 2 March 2002.

[23] Gilpin, Global Political Economy; Understanding the International Economic Order, 382.

[24] MERCOSUR is a customs union created in 1990 following the end of the Soviet Union. Argentina, Brazil, Uruguay and Paraguay, like many middle-level third world countries, found themselves suddenly deprived of valuable leverage against the industrialized West. This political and economical bloc may rival NAFTA as some experts see it as a kernel of a South American common market that may or may not become part of the proposed Free Trade Area of the Americas (FTAA). Sourced from: Mark Falcoff, ROA National Security Report "MERCOSUR: Precursor to the Free Trade Agreement of the Americas?" (September 2001), 23.

[25] Peter I. Hajnal, The G7/G8 System; Evolution, Role and Documentation (Aldershot, England: Ashgate Publishing Company, 1999), 1.

[26] National Defense University, Strategic Assessment 1999; Priorities for a Turbulent World (Washington D.C.:US Government Printing Office, 1999), 27.

[27] Ibid., 29.

[28] Richard Cheney. "Defending Liberty in a Global Economy" From a speech given at the Collateral Damage Conference in the CATO Institute. June 1998; available from <http:/www.cato.org/speeches/sp-dc062398.html>; Internet; accesses 21 September 2001.

[29] John Cavanagh, "US Leadership in the Global Economy" October 1999; available from <http://www.igc.org/infocus/papers/economy/current.html>; Internet; accessed 21 September 2001.

[30] Friedman, 25. Friedman claims the vast global economic system, that has become the world's international system since the end of the bi-polar cold war days, places enormous pressure on unique national cultures and heritages. The global integration of capital, technology and information has created a global village that homogenizes and threatens to erase ancient forces of culture, tradition and community. The Lexus (representing the new) and the olive tree (representing the old) are at odds with each other within each nation. Finding the proper balance between the Lexus and the olive tree is Friedman's greatest drama of the developing global economy.

[31] Alan Larson. "Global Poverty and Development" From a speech given at the Catholic Council of Bishops. Washington DC. 29 January 2002; available from <http://www.usinfo.state.gov/products/washfile.html>; Internet; accessed 31 January 2002.

[32] International Monetary Fund Web Site Home Page. (Refer to the section on Debt Relief for the fact sheet titled, Debt Relief Under the Heavily Indebted Poor Countries Initiative dated November 2001).

[33] Gilpin, Global Political Economy; Understanding the International Economic Order, 382.

[34] National Intelligence Council, "Global Trends 2015" December 2000; available from <http:/www.cia.gov/cia/publications/globaltrends2015.html>; Internet; accessed 28 September 2001.

[35] William J. Clinton, A National Security Strategy For A Global Age (Washington D.C.: The White House, 2000), iii.

[36] Kenneth Juster and Simon Lazarus, Making Economic Policy; An Assessment of the National Economic Council (Washington D.C.: Brookings Institution Press, 1997), 4.

[37] In 1989, an economist named John Williamson penned a list of ten policy recommendations that nations wishing to reform their economies (in order to join the global economy) should adhere to. These recommendations quickly gained favor among the Washington D.C. crowd (hence their nick name "the Washington Consensus") and were powerful because they were the foundation for building the conditions upon which the International Monetary Fund and the World Bank lent money to developing and reforming nations. Among the recommendations were lowering fiscal deficits, government spending on

education, health and infrastructure, tax reforms, tariff limits, increased foreign direct investment, privatization of governmental functions and the enforcement of the rule of law and the concept of property rights. Implemented with varying degrees of success and failure due to the infinite number of social, political, demographic and economic differences in each nation, these recommendations have morphed over time and lost their original prestige and following. Background source in part from Moises Naim, Foreign Policy "Washington Consensus or Washington Confusion" (Spring 2000) 87.

[38] Susan Strange, The Retreat of the State; The Diffusion of Power in the World Economy (New York, N.Y.: Cambridge University Press, 1996) 4. Increases in the World Trade Organization's (WTO) dispute resolution powers and subsequent requirements that member nations must comply with WTO findings has caused many Americans and others to fear reductions in the national sovereignty of its membership. The Dole Amendment to the American ratification of the Uruguay Round of WTO negotiations (named after then Senator Robert Dole) specifically reserved for the US, the right to withdraw from the WTO if it infringed on national sovereignty.

[39] Richard Cheney. "Defending Liberty in a Global Economy" From a speech given at the Collateral Damage Conference in the CATO Institute. June 1998; available from <http:/www.cato.org/speeches/sp-dc062398.html>; Internet; accesses 21 September 2001. Cheney stated during the speech that the in the past 80 years the US had imposed unilateral economic sanctions some 120 times. More than half of these 120 sanctions were put into effect in the last five years under President Clinton's administration.

[40] Henderson, i.

[41] United States Agency for International Development Web Site Home Page, March 2002. Available from <http://www.usaid.gov.html>. Internet. Accessed 2 March 2002.

[42] Strategic Assessment 1999; Priorities for a Turbulent World , 32. The United States has a substantial commercial interest in successful developmental strategies for poorer nations. Eighty-five percent of the United States' customers for our exports are estimated to live in developing countries. One of the chief components of the economic boom in the United States during the 1990's was the rapid expansion of exports to low and middle income countries, especially those in Latin America and the Asia-Pacific region. More than two-fifths of the United States' exports go to these areas.

[43] Lawrence H. Summers. From a speech delivered at the American Israel Public Affairs Committee Conference in Washington DC. 22 May 2000; available from <http:/www.ustreas.gov/press/releases/ps646.html>; Internet; accessed 21 September 2001.

[44] Overseas Private Investment Corporation Web Site Home Page.

[45] Export-Import Bank of the United States Web Site Home Page, March 2002. Available from <http://www.exim.gov.html>. Internet. Accessed 2 March 2002.

[46] Clinton, 35.

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